

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Reed City	County Osceola
Fiscal Year End June 30, 2007	Opinion Date October 11, 2007	Date Audit Report Submitted to State November 7, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	None noted	
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 616-975-4100	
Street Address 2230 East Paris Ave., SE		City Grand Rapids	State MI
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM	Zip 49546
		License Number	24801



REED CITY, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007



REHMANN ROBSON

Certified Public Accountants

CITY OF REED CITY

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

October 11, 2007

Honorable Mayor and Members of
the City Council
City of Reed City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Reed City, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Reed City, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the City of Reed City, Michigan as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and fire equipment replacement special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated October 11, 2007, on our consideration of the City of Reed City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Reed City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Reed City's basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Reed City, we offer readers of the City of Reed City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the City of Reed City exceeded its liabilities at the close of the fiscal year by \$11,811,843. Of this amount \$1,143,686 may be used to meet the government's ongoing obligations to citizens and creditors (unrestricted net assets).
- The City's total net assets increased by \$177,361. The increase is attributable to a number of items including: Reduced personnel expenditures in the General Fund due to the elimination of one position; the Depot Project; and an increase in the Library Fund.
- As of the close of the fiscal year the City of Reed City's governmental funds reported combined ending fund balances of \$1,092,777 an increase of \$63,055 in comparison with the prior year. Approximately 95% of the total fund balance, \$1,034,609 is available for spending at the government's discretion. (These amounts include the undesignated fund balance for the General, Special Revenue, Capital Projects, and Permanent Funds).
- At the end of the fiscal year unreserved fund balance for the general fund was \$327,243 or 27 percent of total general fund expenditures.
- The City's total debt increased by \$1,363,083 (6.4%) from the previous fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Reed City's financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Reed City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, police, public works including major and local street maintenance and recreation and cultural activities. The business-type activities of the City include sewer and water services.

The government-wide financial statements can be found on pages 11-13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Reed City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the following two funds: General and Fire Equipment Replacement.

Data is combined into a single aggregated presentation for the other fourteen governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements and schedules*.

The City adopts an annual appropriated budget for its general, special revenue funds, and other funds as necessary. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 14-19 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Sewer and Water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses the internal service fund to account for its fleet of vehicles and accounting for compensated absences. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Sewer and Water operations, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 20-23 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resource of those funds are *not* available to the support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on page 24 of this report.

The component unit fund financial statements can be found on pages 25 and 26 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-41 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This includes this management discussion and analysis as well as schedules of funding progress and employer contributions related to the City's pension plan which can be found in Note 9 on page 39 of this report.

Combining and individual fund statements and schedules can be found on pages 42-53 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Reed City, assets exceeded liabilities by \$11,811,843 at the close of the most recent fiscal year.

A little less than 10% of the City's net assets reflects unrestricted net assets which are available for future operation while a significant portion (81.8%) of net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Reed City Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Current and other assets	\$1,280,563	\$1,368,878	\$1,027,864	\$ 1,229,562	\$ 2,308,427	\$ 2,598,440
Capital assets	2,983,515	3,231,933	8,745,628	9,868,363	11,729,143	13,100,296
Total assets	4,264,078	4,600,811	9,773,492	11,097,925	14,037,570	15,698,736
Long-term liabilities						
Outstanding	719,026	921,276	1,324,979	2,344,329	2,044,005	3,265,605
Other liabilities	115,703	135,744	243,380	485,544	359,083	621,288
Total liabilities	834,729	1,057,020	1,568,359	2,829,873	2,403,088	3,886,893
Net assets:						
Invested in capital assets, net of related debt	2,299,515	2,347,933	7,347,944	7,309,846	9,647,459	9,657,779
Restricted	570,131	539,511	368,843	470,867	938,974	1,010,378
Unrestricted	559,703	656,347	488,346	487,339	1,048,049	1,143,686
Total net assets	\$3,429,349	\$3,543,791	\$8,205,133	\$ 8,268,052	\$11,634,482	\$11,811,843

Net assets of the City increased by \$177,361 with both the governmental and business-type activities showing additions to prior balances. The business-type activities increase in net assets of \$62,919 was primarily the result of an increase in water/sewer rates. The governmental activities increase in net assets of \$114,442 is primarily due to a decrease in expenditures from the loss of one employee position in the General Fund, an increase in capital assets of the Depot Project and Fire Equipment funded thru the Downtown Development Authority, and an increase in the Library Fund.

City of Reed City Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Revenue						
Program Revenue						
Charges for services	\$ 204,004	\$ 199,206	\$1,495,661	\$1,720,144	\$1,699,665	\$1,919,350
Operating grants and contributions	154,624	192,716	45,857	46,182	200,481	238,898
Capital grant and Contributions	378,641	40,000	-	-	378,641	40,000
	737,269	431,922	1,541,518	1,766,326	2,278,787	2,198,248
General revenue						
Property taxes	616,373	650,287	-	-	616,373	650,287
Other governmental Sources	510,700	500,021	-	-	510,700	500,021
Other	231,865	209,516	29,609	32,917	261,474	242,433
Total revenue	2,096,207	1,791,746	1,571,127	1,799,243	3,667,334	3,590,989

City of Reed City Changes in Net Assets (Continued)

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Expenses						
General Government	\$ 471,076	\$ 457,541	\$ -	\$ -	\$ 471,076	\$ 457,541
Public Safety	502,771	554,172	-	-	502,771	554,172
Highways and Streets	228,145	235,015	-	-	228,145	235,015
Public works	179,076	157,130	-	-	179,076	157,130
Culture and recreation	242,433	239,158	-	-	242,433	239,158
Interest	31,377	34,288	-	-	31,377	34,288
Water & Sewer	-	-	1,585,520	1,736,324	1,585,520	1,736,324
Total expenses	1,654,878	1,677,304	1,585,520	1,736,324	3,240,398	3,413,628
Change in net assets	441,329	114,442	(14,393)	62,919	426,936	177,361
Net assets - beginning of year	2,988,020	3,429,349	8,219,526	8,205,133	11,207,546	11,634,482
Net assets - end of year	\$3,429,349	\$3,543,791	\$8,205,133	\$8,268,052	\$11,634,482	\$11,811,843

The Operating grants and Contributions figure includes penal fines for the Library and Township fire contracts for the Fire Department.

The amounts in Other Governmental Sources includes State Revenue Sharing, Act 51 Gas Tax funds and contributions from the Downtown Development Authority (DDA).

Governmental activities. During the year the City continued its emphasis in public safety by investing \$554,172 or 33% of governmental activities expenses. Culture and recreation, which includes library operations was \$239,158 or 14% of governmental activities expenses while general government, public works and streets and interest on long-term debt made up the remaining 53% of governmental activities expenses.

The Governmental activities represented above included Police Department and Fire Department operations, Department of Public Works, Library, Major Streets, and Administrative functions.

Business-type activities. Net assets increased by \$62,919 compared to the previous fiscal year decrease of \$14,393. These activities included Water and Sewer operations and the Equipment Pool.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,092,777, an increase of \$63,055 in comparison with the prior year. The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$327,243. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 27 percent of total general fund expenditures. The City Council's annual target is 25 percent of total general fund expenditures.

The fund balance of the City's general fund increased by \$72,326 during the current fiscal year which was considerably more than the budgeted amount of \$0.00.

The fire equipment replacement fund has a total fund balance of \$50,558, which decreased by \$21,832 during the year.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the sewer and water fund at the end of the year amounted to \$487,339. The fund had an increase in net assets for the year of \$62,919. Factors concerning the finances of the fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the final and amended budgets for expenditures amounted to 6.7% for the year. Most of the difference is attributed to decreases in expenditures.

During the year, general fund revenues were less than budgetary estimates and expenditures were also less. An actual increase in fund balance resulted that was more than the final amended budget amount by \$72,326.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounted to \$13,100,296 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, motor pool equipment, motor vehicles, infrastructure and construction in progress, machinery and equipment. Significant capital assets acquired during the year consisted primarily of new water mains and water tower, and a new fire truck.

The total increase in the City's investment in capital assets for the 2007 fiscal year was 11.7% (a 8.3% increase for governmental activities and a 12.8% increase for business-type activities).

City of Reed City Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Land	\$ 93,104	\$ 93,104	\$ 30,305	\$ 30,305	\$ 123,409	\$ 123,409
Land improvements	74,238	93,004	-	48,838	74,238	141,842
Buildings and improvements	1,642,186	1,598,828	10,417	10,492	1,652,603	1,609,320
Furniture and equipment	182,709	724,693	177,510	140,343	360,219	865,036
Motor vehicles	303,579	-	-	-	303,579	-
Infrastructure	683,011	654,900	-	-	683,011	654,900
Water System	-	-	663,636	644,603	663,636	644,603
Sewer System	-	-	7,720,643	7,503,193	7,720,643	7,503,193
Construction in progress	4,688	67,404	143,117	1,490,589	147,805	1,557,993
Total	\$2,983,515	\$3,231,933	\$8,745,628	\$9,868,363	\$11,729,143	\$13,100,296

Additional information on the City of Reed City's capital assets can be found in Note 7 on pages 36 and 37 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$3,479,793 as follows:

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
General obligation bonds	\$539,000	\$529,000	\$ -	\$ -	\$ 539,000	\$ 529,000
Special assessment with government commitment	145,000	125,000	-	-	145,000	125,000
Installment notes	-	230,000	247,684	1,523,517	247,684	1,753,517
Revenue bonds	-	-	1,150,000	1,035,000	1,150,000	1,035,000
Long-term compensated absences	35,026	37,276	-	-	35,026	37,276
Total	\$719,026	\$921,276	\$1,397,684	\$2,558,517	\$2,116,710	\$3,479,793

The City's total debt increased by \$1,363,083 during the current fiscal year.

Additional information on the City's long-term debt can be found in Note 8 on pages 37 and 38 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2007-08 fiscal year:

- Increased employee wages and benefit cost.
- Increased health insurance cost.
- Limited increased property tax revenue.
- Stable water and sewer revenues.
- No change in state revenue sharing payments.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 227 East Lincoln Avenue, Reed City, Michigan, 49677.

BASIC FINANCIAL STATEMENTS

CITY OF REED CITY

Statement of Net Assets

June 30, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,115,634	\$ 502,932	\$ 1,618,566	\$ 615,317
Receivables, net	239,935	201,807	441,742	40,525
Prepaid items and other assets	13,309	53,956	67,265	-
Restricted cash and cash equivalents	-	470,867	470,867	-
Capital assets not being depreciated	160,508	1,520,894	1,681,402	-
Capital assets being depreciated, net	3,071,425	8,347,469	11,418,894	-
Total assets	4,600,811	11,097,925	15,698,736	655,842
Liabilities				
Accounts payable and accrued liabilities	135,744	271,356	407,100	58,162
Noncurrent liabilities:				
Due within one year	47,000	214,188	261,188	70,000
Due in more than one year	874,276	2,344,329	3,218,605	990,000
Total liabilities	1,057,020	2,829,873	3,886,893	1,118,162
Net assets				
Invested in capital assets, net of related debt	2,347,933	7,309,846	9,657,779	-
Restricted for:				
Highways and streets	101,868	-	101,868	-
Capital projects	20,660	-	20,660	-
Public safety	53,937	-	53,937	-
Debt service	87,795	470,867	558,662	-
Recreation and culture	157,779	-	157,779	-
Other purposes	71,553	-	71,553	-
Nonexpendable perpetual trust:				
Cemetery - expendable portion	12,169	-	12,169	-
Cemetery - corpus	33,750	-	33,750	-
Unrestricted (deficit)	656,347	487,339	1,143,686	(462,320)
Total net assets (deficit)	\$ 3,543,791	\$ 8,268,052	\$ 11,811,843	\$ (462,320)

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

Statement of Activities

For the Year Ended June 30, 2007

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 457,541	\$ 189,504	\$ 1,176	\$ -	\$ (266,861)
Public safety	554,172	231	101,029	40,000	(412,912)
Highways and streets	235,015	-	-	-	(235,015)
Recreation and culture	239,158	3,839	90,511	-	(144,808)
Public works	157,130	5,632	-	-	(151,498)
Interest on long-term debt	34,288	-	-	-	(34,288)
Total governmental activities	<u>1,677,304</u>	<u>199,206</u>	<u>192,716</u>	<u>40,000</u>	<u>(1,245,382)</u>
Business-type activities:					
Water and sewer	<u>1,736,324</u>	<u>1,720,144</u>	<u>46,182</u>	<u>-</u>	<u>30,002</u>
Total primary government	<u>\$ 3,413,628</u>	<u>\$ 1,919,350</u>	<u>\$ 238,898</u>	<u>\$ 40,000</u>	<u>\$ (1,215,380)</u>
Component unit					
Downtown development	\$ 455,980	\$ -	\$ -	\$ -	\$ (455,980)
Brownfield redevelopment	<u>23,167</u>	<u>-</u>	<u>23,167</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 479,147</u>	<u>\$ -</u>	<u>\$ 23,167</u>	<u>\$ -</u>	<u>\$ (455,980)</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

Statement of Activities (Concluded)

For the Year Ended June 30, 2007

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
Changes in net assets				
Net (expense) revenue	\$ (1,245,382)	\$ 30,002	\$ (1,215,380)	\$ (455,980)
General revenues:				
Property taxes	650,287	-	650,287	574,833
State shared revenues	500,021	-	500,021	-
Local sources	100,502	-	100,502	-
Gain on sale of capital assets	71	-	71	-
Interest earnings	64,494	34,917	99,411	30,262
Other general revenues	42,449	-	42,449	-
Transfers - internal activities	2,000	(2,000)	-	-
Total general revenues and transfers	1,359,824	32,917	1,392,741	605,095
Change in net assets	114,442	62,919	177,361	149,115
Net assets (deficit), beginning of year	3,429,349	8,205,133	11,634,482	(611,435)
Net assets (deficit), end of year	<u>\$ 3,543,791</u>	<u>\$ 8,268,052</u>	<u>\$ 11,811,843</u>	<u>\$ (462,320)</u>
				(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

Balance Sheet Governmental Funds

June 30, 2007

	General Fund	Fire Equipment Replacement	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 290,931	\$ 50,558	\$ 665,332	\$ 1,006,821
Accounts receivable	48,741	-	504	49,245
Special assessments receivable	-	-	71,553	71,553
Due from other governmental units	86,145	-	32,992	119,137
Prepaid items	11,997	-	902	12,899
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 437,814	\$ 50,558	\$ 771,283	\$ 1,259,655
	<hr/>	<hr/>	<hr/>	<hr/>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 45,332	\$ -	\$ 6,496	\$ 51,828
Accrued liabilities	14,842	-	2,123	16,965
Due to other funds	38,400	-	5,687	44,087
Deferred revenue	-	-	53,998	53,998
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	98,574	-	68,304	166,878
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances				
Reserved for:				
Prepaid items	11,997	-	902	12,899
Cemetery perpetual care	-	-	33,750	33,750
Unreserved:				
Designated for subsequent year expenditures	-	-	11,519	11,519
Undesignated	327,243	50,558	-	377,801
Undesignated, reported in nonmajor:				
Special Revenue Funds	-	-	526,316	526,316
Debt Service Funds	-	-	97,663	97,663
Capital Projects Funds	-	-	20,660	20,660
Permanent Fund	-	-	12,169	12,169
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	339,240	50,558	702,979	1,092,777
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 437,814	\$ 50,558	\$ 771,283	\$ 1,259,655
	<hr/>	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2007

Fund balances - total governmental funds	\$ 1,092,777
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statements.

Add - capital assets not being depreciated	160,508
Add - capital assets, net of accumulated depreciation	3,071,425

Certain assets, such as special assessments receivable are not due and receivable in the current period and therefore are offset with deferred revenue in the fund statements.

Add - deferred special assessments receivable	53,998
-----------------------------------------------	--------

An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities.

Add - net assets of governmental activities accounted for in the internal service fund	333,522
Deduct - capital assets accounted for in the internal service fund, net of accumulated depreciation	(237,295)

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the fund statements:

Deduct - bonds payable	(884,000)
Deduct - compensated absences	(37,276)
Deduct - accrued interest on long-term liabilities	<u>(9,868)</u>

Net assets of governmental activities	<u><u>\$ 3,543,791</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2007

	General Fund	Fire Equipment Replacement	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 582,174	\$ -	\$ 68,113	\$ 650,287
Special assessments	-	-	17,554	17,554
Licenses and permits	22,716	-	-	22,716
Intergovernmental revenue:				
Federal	-	30,000	-	30,000
State	260,314	-	237,726	498,040
Local	93,502	40,000	7,000	140,502
Charges for services	124,998	-	-	124,998
Fines	10,904	-	-	10,904
Interest and other	177,817	3,765	131,173	312,755
Total revenues	1,272,425	73,765	461,566	1,807,756
Expenditures				
Current:				
Legislative	17,963	-	-	17,963
General government	289,085	-	388	289,473
Public safety	480,320	-	249	480,569
Public works	157,130	306	232,454	389,890
Culture and recreation	69,827	-	113,241	183,068
Other governmental functions	119,748	-	-	119,748
Debt service:				
Principal	-	-	30,000	30,000
Interest	562	3,241	30,494	34,297
Capital outlay	85,810	310,209	36,674	432,693
Total expenditures	1,220,445	313,756	443,500	1,977,701
Revenues over (under) expenditures	51,980	(239,991)	18,066	(169,945)
Other financing sources (uses)				
Transfers in	29,816	9,470	67,655	106,941
Transfers out	(9,470)	(21,311)	(73,160)	(103,941)
Issuance of long-term debt	-	230,000	-	230,000
Total other financing sources (uses)	20,346	218,159	(5,505)	233,000
Net changes in fund balances	72,326	(21,832)	12,561	63,055
Fund balances, beginning of year	266,914	72,390	690,418	1,029,722
Fund balances, end of year	<u>\$ 339,240</u>	<u>\$ 50,558</u>	<u>\$ 702,979</u>	<u>\$ 1,092,777</u>

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2007

Net changes in fund balances - total governmental funds	\$ 63,055
---------------------------------------------------------	-----------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	406,312
Deduct - depreciation expense	(109,207)
Deduct - proceeds on sale of capital assets	(3,633)
Loss realized on sale of capital assets	(23,567)

Special assessments receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements.

Deduct - decrease in deferred long-term receivables	(17,554)
-----------------------------------------------------	----------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct - proceeds from sale of bonds	(230,000)
Add - principal payments on long-term liabilities	30,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Deduct - increase in accrued interest on bonds	(3,794)
Deduct - increase in the accrual for compensated absences	(2,250)

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Add - income from governmental activities in internal service fund	5,080
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Change in net assets of governmental activities	<u>\$ 114,442</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

Statement of Revenues, Expenditures and Change in Fund Balance Budget and Actual General Fund

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Revenues				
Taxes	\$ 551,500	\$ 576,675	\$ 582,174	\$ 5,499
Licenses and permits	19,650	19,650	22,716	3,066
Intergovernmental revenues:				
State	280,826	264,750	260,314	(4,436)
Local	27,625	96,115	93,502	(2,613)
Charges for services	117,008	120,741	124,998	4,257
Fines and forfeits	4,650	10,650	10,904	254
Interest and other	174,430	193,786	177,817	(15,969)
Total revenues	1,175,689	1,282,367	1,272,425	(9,942)
Expenditures				
Current:				
Legislative	26,300	23,000	17,963	(5,037)
General government	291,444	311,296	289,085	(22,211)
Public safety	472,126	495,179	480,320	(14,859)
Public works	169,811	170,226	157,130	(13,096)
Culture and recreation	65,882	71,827	69,827	(2,000)
Other governmental functions	147,130	145,130	119,748	(25,382)
Debt service:				
Interest	675	675	562	(113)
Capital outlay	9,851	90,910	85,810	(5,100)
Total expenditures	1,183,219	1,308,243	1,220,445	(87,798)
Revenues over (under) expenditures	(7,530)	(25,876)	51,980	77,856
Other financing sources (uses)				
Transfers in	17,000	35,346	29,816	(5,530)
Transfers (out)	(9,470)	(9,470)	(9,470)	-
Total other financing sources (uses)	7,530	25,876	20,346	(5,530)
Net change in fund balance	-	-	72,326	72,326
Fund balance, beginning of year	266,914	266,914	266,914	-
Fund balance, end of year	<u>\$ 266,914</u>	<u>\$ 266,914</u>	<u>\$ 339,240</u>	<u>\$ 72,326</u>

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Fire Equipment Replacement

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Revenues				
Intergovernmental:				
Federal	\$ -	\$ 30,000	\$ 30,000	\$ -
Local	40,000	40,000	40,000	-
Charges for services	36,000	9,470	-	(9,470)
Interest and other	800	800	3,765	2,965
Total revenues	76,800	80,270	73,765	(6,505)
Expenditures				
Public safety	56,800	-	306	306
Debt service:				
Interest	-	3,241	3,241	-
Capital outlay	15,000	310,210	310,209	(1)
Total expenditures	71,800	313,451	313,756	305
Net change in fund balances	5,000	(233,181)	(239,991)	(6,810)
Other financing sources (uses)				
Transfers in	-	-	9,470	9,470
Transfers (out)	(5,000)	(23,291)	(21,311)	1,980
Issuance of long-term debt	-	230,000	230,000	-
Total other financing sources (uses)	(5,000)	206,709	218,159	11,450
Net change in fund balance	-	(26,472)	(21,832)	4,640
Fund balance, beginning of year	72,390	72,390	72,390	-
Fund balance, end of year	<u>\$ 72,390</u>	<u>\$ 45,918</u>	<u>\$ 50,558</u>	<u>\$ 4,640</u>

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

Statement of Net Assets Proprietary Funds

June 30, 2007

	Business-Type Activities	Governmental Activities
	Water & Sewer Enterprise Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 502,932	\$ 108,813
Accounts receivable, net of allowance	201,807	-
Inventory	5,311	-
Bond issuance costs, net of accumulated amortization	45,380	-
Due from other funds	-	44,087
Prepaid items	3,265	410
Restricted cash and cash equivalents	470,867	-
Total current assets	<u>1,229,562</u>	<u>153,310</u>
Non-current assets:		
Capital assets:		
Land	30,305	-
Construction in progress	1,490,589	-
Property, plant and equipment	12,895,709	-
Machinery and equipment	-	746,206
Less: accumulated depreciation	(4,548,240)	(508,911)
Total non-current assets	<u>9,868,363</u>	<u>237,295</u>
Total assets	<u>11,097,925</u>	<u>390,605</u>
Liabilities		
Current liabilities:		
Accounts payable	192,538	5,951
Accrued liabilities	78,818	51,132
Current maturity of bonds and notes payable	214,188	-
Total current liabilities	485,544	57,083
Noncurrent liabilities:		
Bonds and notes payable, net of current maturities	2,344,329	-
Total liabilities	<u>2,829,873</u>	<u>57,083</u>
Net assets		
Invested in capital assets, net of related debt	7,309,846	237,295
Restricted for debt service	470,867	-
Unrestricted	487,339	96,227
Total net assets	<u>\$ 8,268,052</u>	<u>\$ 333,522</u>

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For the Year Ended June 30, 2007

	Business-Type Activities <u>Water & Sewer Enterprise Fund</u>	Governmental Activities <u>Internal Service Funds</u>
Operating revenues		
Charges for services	\$ 1,630,739	\$ 188,622
Miscellaneous	135,587	-
Total operating revenues	<u>1,766,326</u>	<u>188,622</u>
Operating expenses		
Personnel services	484,106	51,383
Contractual services	253,285	20,697
Materials and supplies	105,661	31,552
Utilities	301,449	11,052
Repairs and maintenance	57,229	24,619
Lease and rental	36,547	-
Depreciation and amortization	348,052	46,146
Miscellaneous	66,657	-
Total operating expenses	<u>1,652,986</u>	<u>185,449</u>
Operating income	<u>113,340</u>	<u>3,173</u>
Non-operating revenues (expenses)		
Gain on sale of capital assets	-	71
Interest income	34,917	2,836
Interest expense	(83,338)	-
Total non-operating revenues (expenses)	<u>(48,421)</u>	<u>2,907</u>
Net income (loss) before transfers	64,919	6,080
Transfers out	<u>(2,000)</u>	<u>(1,000)</u>
Change in net assets	62,919	5,080
Net assets, beginning of year	<u>8,205,133</u>	<u>328,442</u>
Net assets, end of year	<u>\$ 8,268,052</u>	<u>\$ 333,522</u>

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

Statement of Cash Flows Proprietary Funds

For the Year Ended June 30, 2007

	Business-Type Activities	Governmental Activities
	Water & Sewer Enterprise Fund	Internal Service Funds
Cash flows from operating activities		
Receipts from interfund services provided	\$ -	\$ 188,622
Receipts from customers and users	1,748,702	-
Payments to suppliers	(729,416)	(86,937)
Payments to employees	(472,122)	(49,741)
	<u>547,164</u>	<u>51,944</u>
Net cash provided by operating activities		
	<u>547,164</u>	<u>51,944</u>
Cash flows from non-capital financing activities		
Amounts lent to other funds	-	(2,075)
Transfers (out)	(2,000)	(1,000)
	<u>(2,000)</u>	<u>(3,075)</u>
Net cash used in non-capital financing activities		
	<u>(2,000)</u>	<u>(3,075)</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(1,469,791)	(24,659)
Proceeds from sale of capital assets	1,974	71
Principal paid on bonds	(142,706)	-
Issuance of bonds	1,303,539	-
Interest and fiscal charges paid	(83,338)	-
	<u>(390,322)</u>	<u>(24,588)</u>
Net cash used in capital and related financing activities		
	<u>(390,322)</u>	<u>(24,588)</u>
Cash flows from investing activities		
Interest earned on investments	34,917	2,836
	<u>34,917</u>	<u>2,836</u>
Net increase in cash and cash equivalents	189,759	27,117
Cash and cash equivalents, beginning of year	784,040	81,696
	<u>784,040</u>	<u>81,696</u>
Cash and cash equivalents, end of year	<u><u>\$ 973,799</u></u>	<u><u>\$ 108,813</u></u>
Cash and cash equivalents per the statement of net assets		
Cash and cash equivalents	\$ 502,932	\$ 108,813
Restricted cash and cash equivalents	470,867	-
	<u>470,867</u>	<u>-</u>
	<u><u>\$ 973,799</u></u>	<u><u>\$ 108,813</u></u>

CITY OF REED CITY

Statement of Cash Flows Proprietary Funds (Concluded)

For the Year Ended June 30, 2007

	Business-Type Activities	Governmental Activities
	Water & Sewer Enterprise Fund	Internal Service Funds
Cash flows from operating activities		
Operating income	\$ 113,340	\$ 3,173
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	348,052	46,146
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(14,848)	-
Inventory	(502)	-
Prepaid items	441	-
Accounts payable	91,473	983
Accrued liabilities	11,984	1,642
Deferred revenue	(2,776)	-
Net cash provided by operating activities	<u>\$ 547,164</u>	<u>\$ 51,944</u>

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

Statement of Fiduciary Assets and Liabilities Agency Funds

June 30, 2007

Assets

Cash and cash equivalents	\$ 20,014
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Liabilities

Accounts payable	\$ 797
Due to other governmental units	5,195
Deposits held for others	<u>14,022</u>
Total liabilities	<u>\$ 20,014</u>

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

Combining Statement of Net Assets Component Units

June 30, 2007

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Assets			
Cash and cash equivalents	\$ 610,152	\$ 5,165	\$ 615,317
Accounts receivable	30,246	-	30,246
Due from other governments	-	10,279	10,279
Advance to other component unit	5,000	-	5,000
	<hr/>	<hr/>	<hr/>
Total assets	645,398	15,444	660,842
	<hr/>	<hr/>	<hr/>
Liabilities			
Accounts payable	43,031	10,279	53,310
Advance from other component unit	-	5,000	5,000
Accrued interest	4,852	-	4,852
Noncurrent liabilities:			
Due within one year	70,000	-	70,000
Bond payable, net of current portion	990,000	-	990,000
	<hr/>	<hr/>	<hr/>
Total liabilities	1,107,883	15,279	1,123,162
	<hr/>	<hr/>	<hr/>
Net assets			
Unrestricted (deficit)	\$ (462,485)	\$ 165	\$ (462,320)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

Combining Statement of Activities Component Units

For the Year Ended June 30, 2007

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Expenses			
General government	\$ 393,097	\$ 23,167	\$ 416,264
Debt service:			
Interest and fiscal charges	62,882	-	62,882
Total expenses	455,979	23,167	479,146
Program revenues			
Operating grants - federal	-	23,167	23,167
Net expense	(455,979)	-	(455,979)
General revenues			
Taxes	574,832	-	574,832
Interest and other	30,097	165	30,262
Total general revenues	604,929	165	605,094
Change in net assets	148,950	165	149,115
Net assets (deficit), beginning of year	(611,435)	-	(611,435)
Net assets (deficit), end of year	\$ (462,485)	\$ 165	\$ (462,320)

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Reed City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component units--entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The City has no blended component units. Discretely presented component units are reported in a separate column in the financial statements to emphasize they are legally separate from the City.

Discretely Presented Component Units

The component units column in the basic financial statements includes the financial data of the Downtown Development Authority and Brownfield Redevelopment Authority. These units are reported in a separate column and rows to emphasize that they are legally separate from the City.

The members of the governing boards of the Authorities are appointed by the City Council. The budgets of the Authorities must be approved by the City Council, and the City has the ability to significantly influence its operations. Financial statements are not separately issued for the component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

Likewise, the *primary government* is reported separately from the *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the County pays the City, and is responsible for collecting, any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Equipment Replacement Special Revenue Fund* is used to account for vehicles and equipment purchased specifically for the fire department.

CITY OF REED CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

The City reports the following major proprietary fund:

The *Sewer and Water Enterprise Fund* is used to account for the operations of the City's sewer and water department that provides sewer and water services to most residents of the City on a user charge basis.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for proceeds from specific revenue sources (other than perpetual trusts or capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The *Capital Projects Funds* are used to account for the accumulation and disbursement of funds for capital projects.

The *Permanent Fund* is used to account for resources that are legally restricted to the extent that only earnings, and not principal may be used for purposes that support the City programs.

The *Internal Service Funds* account for equipment and vehicle purchases, repairs and maintenance, and charges to compensated absences provided to the City departments on a cost reimbursement basis.

The *Agency Funds* are used to account for assets held in an agency capacity on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. The principal operating revenues of the City's internal service funds are charges to City departments for equipment utilization and insurance coverage. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. Operating expenses for the internal funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF REED CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

Budgets and Budgetary Accounting

Comparisons to budget are presented for General and Special Revenue Funds. General and Special Revenue Funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. By the second week of May the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the government fund types as a management control device.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year end.
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed during the year ended June 30, 2007. The appropriations resolution is based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The City Manager is authorized to transfer budgeted amounts within an activity subject to the condition that the total expenditures do not exceed the approved appropriations by activity. Supplemental appropriations were necessary during the year.

Budgets and Budgetary Accounting

Budgets for expenditures are adopted on an activity level basis in the General Fund and by function in the Special Revenue funds. Thus, expenditures may not legally exceed the budgeted amounts by activity for the General Fund and by function for the Special Revenue funds.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Restricted Assets

Certain resources set aside for repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

Receivables

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Special assessments receivable include \$53,998 which is expected to be collected in more than one year.

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Due to/from Other Funds

During the course of its operations, the City has numerous transactions between funds to finance operations, to provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of fiscal year end, balances of interfund accounts receivable or payable have been recorded.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added in 2003 and forward.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure), is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-20
Buildings	20-50
Office furniture and equipment	5-15
Vehicles	5-10
Public domain infrastructure	10-50
System infrastructure	40-50

Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

Special assessment (Maplewood Special Assessment Fund)	<u>\$53,998</u>
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CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts.

Accumulated vacation time of governmental funds is recorded on statement of net assets and not on the governmental fund balance sheets because it is not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds have been evaluated and determined to be immaterial to the financial statements as a whole. Consequently, no portion of the liability is reported on the statements of net assets of the enterprise fund.

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes and taxes billed on behalf of the school district (State Education Tax) within the City limits. Real property taxes not collected as of March 1 are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

2. DEFICIT NET ASSETS

At June 30, 2007, the City had deficit net assets of \$462,485 in the Downtown Development Authority Component Unit as presented on the full accrual basis of accounting. However, no deficit exists in the individual funds presented on the modified accrual basis of accounting.

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2007 the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Fire Equipment Replacement:			
Public Safety	\$4,112	\$4,418	\$306

4. CASH AND INVESTMENTS

Cash and investments consist of the following at June 30, 2007:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Totals</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 1,618,566	\$ 615,317	\$ 2,233,883
Restricted cash and cash equivalents	470,867	-	470,867
Statement of Fiduciary Net Assets			
Cash and cash equivalents	<u>20,014</u>	<u>-</u>	<u>20,014</u>
	<u>\$ 2,109,447</u>	<u>\$ 615,317</u>	<u>\$ 2,724,764</u>
Deposits and Investments			
Cash on hand			\$ 430
Bank deposits			1,117,028
Certificates of deposit			<u>1,607,306</u>
			<u>\$ 2,724,764</u>

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year end, \$2,294,783 of the City's bank balance of \$2,894,783 was exposed to custodial credit risk because it was uninsured and uncollateralized.

These deposits are in three (3) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at cost. Interest is recorded when earned.

Investments

The City chooses to disclose its investments by specifically identifying each. As of year end, the City had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificate of Deposit	< 1 year	\$1,057,867
Certificate of Deposit	1-5 years	549,439

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified below in the Statutory Authority section. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year end.

Statutory Authority

Act 217, PA 1982, authorizes the City to deposit and invest in:

- a. Bonds and other direct obligations of the United States or its agencies.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

5. INTERFUND RECEIVABLES AND PAYABLES

	Due from Other Funds	Due to Other Funds
General Fund	\$ -	\$ 38,400
Major Streets Fund	-	3,291
Local Streets Fund	-	2,396
Compensated Absences Internal Service Fund	44,087	-
	<u>\$ 44,087</u>	<u>\$ 44,087</u>

Interfund balances primarily reflect loans made from funds with cash and cash equivalents to those funds requiring temporary cash flow needs.

6. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2007 are as follows:

	Transfers In			
	General Fund	Fire Equipment Replacement Fund	Nonmajor Governmental Funds	Total
Transfers out:				
General Fund	\$ -	\$ 9,470	\$ -	\$ 9,470
Fire Equipment Replacement	17,199	-	4,112	21,311
Sewer & Water Enterprise	-	-	2,000	2,000
Internal Service	-	-	1,000	1,000
Nonmajor Governmental	12,617	-	60,543	73,160
Total	<u>\$ 29,816</u>	<u>\$ 9,470</u>	<u>\$ 67,655</u>	<u>\$ 106,941</u>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2007</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 93,104	\$ -	\$ -	\$ 93,104
Construction in progress	4,688	65,320	2,604	67,404
Total capital assets, not being depreciated	97,792	65,320	2,604	160,508
Capital assets, being depreciated:				
Land improvements	146,244	-	-	146,244
Buildings and improvements	1,808,579	-	-	1,808,579
Machinery and equipment	1,388,892	355,979	73,000	1,671,871
Infrastructure	701,843	12,276	-	714,119
Total capital assets, being depreciated	4,045,558	368,255	73,000	4,340,813
Less accumulated depreciation for:				
Land improvements	46,830	6,410	-	53,240
Buildings and improvements	181,347	28,404	-	209,751
Furniture and equipment	893,558	99,420	45,800	947,178
Infrastructure	38,100	21,119	-	59,219
Total accumulated depreciation	1,159,835	155,353	45,800	1,269,388
Net capital assets, being depreciated	2,885,723	212,902	27,200	3,071,425
Net governmental activities capital assets	<u>\$ 2,983,515</u>	<u>\$ 278,222</u>	<u>\$ 29,804</u>	<u>\$ 3,231,933</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 30,305	\$ -	\$ -	\$ 30,305
Construction in process	143,117	1,354,972	7,500	1,490,589
Total capital assets, not being depreciated	173,422	1,354,972	7,500	1,520,894
Capital assets, being depreciated:				
Buildings	39,479	-	-	39,479
Land improvements	30,831	39,200	-	70,031
Equipment	331,054	12,213	-	343,267
Water system	1,421,665	10,295	1,974	1,429,986
Sewer system	10,952,335	60,611	-	11,012,946
Total capital assets, being depreciated	12,775,364	122,319	1,974	12,895,709

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

	Balance July 1, 2006	Additions	Dispositions	Balance June 30, 2007
Less accumulated depreciation for:				
Buildings	\$ 28,292	\$ 695	\$ -	\$ 28,987
Land improvements	19,687	1,506	-	21,193
Equipment	182,435	20,489	-	202,924
Water system	742,191	43,192	-	785,383
Sewer system	3,230,553	279,200	-	3,509,753
Total accumulated depreciation	4,203,158	345,082	-	4,548,240
Net capital assets, being depreciated	8,572,206	(222,763)	1,974	8,347,469
Business-type activities capital assets, net	\$ 8,745,628	\$ 1,132,209	\$ 9,474	\$ 9,868,363

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 4,725
Public safety	46,219
Recreation and culture	55,702
Public works	2,561
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	46,146
Total depreciation expense – governmental activities	\$155,353

8. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Due Within One Year
Governmental activities					
\$230,000 Equipment installment note due in annual installments of \$11,000 to \$20,000 through February, 2022; interest at 4.13%	\$ -	\$ 230,000	\$ -	\$ 230,000	\$ 11,000
\$225,000 Special Assessment Bonds of 2002 due in annual installments of \$20,000 to \$25,000 through September 2011; average interest at 3.994%.	145,000	-	(20,000)	125,000	25,000
\$575,000 Fire Station General Obligation Bonds of 2002 due in annual installments of \$9,000 to \$37,000 through May 2032; interest at 4.625%.	539,000	-	(10,000)	529,000	11,000
Subtotal-installment debt	684,000	230,000	(30,000)	884,000	47,000
Long-term compensated absences	35,026	2,250	-	37,276	-
Total governmental activities	\$ 719,026	\$ 232,250	\$ (30,000)	\$ 921,276	\$ 47,000

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
<i>Business-type activities</i>					
\$1,105,000 Water Supply/Wastewater System Revenue Bonds of 1998 due in annual installments of \$40,000 to \$85,000 through November 2019; interest at rates varying from 4.3% to 5.2%.	\$ 850,000	\$ -	\$ (45,000)	\$ 805,000	\$ 45,000
\$1,605,000 Drinking Water Revolving Fund Bonds of 2006 due in annual installments of \$65,000 to \$90,000 \$85,000 through April 2027; interest at 2.13%.	-	1,303,539	-	1,303,539	65,000
\$435,000 Water Supply and Wastewater System Revenue Refunding Bonds of 2004 due in annual installments of \$65,000 to \$80,000 through July 2010; interest at rates varying from 1.87% to 3.84%.	300,000	-	(70,000)	230,000	75,000
Equipment installment note due in semi-annual installments of approximately \$20,200 including interest through August 2013; interest at 5.28%.	247,684	-	(27,706)	219,978	29,188
Total business-type activities	<u>\$1,397,684</u>	<u>\$ 1,303,539</u>	<u>\$ (142,706)</u>	<u>\$2,558,517</u>	<u>\$ 214,188</u>
<i>Component unit</i>					
\$1,300,000 Downtown Development Revenue Bonds of 1998 due in annual installments of \$25,000 to \$250,000 through 2017; interest rates varying from 9.25% to 5.75%.	<u>\$1,100,000</u>	<u>\$ -</u>	<u>\$ (40,000)</u>	<u>\$1,060,000</u>	<u>\$ 70,000</u>

For the governmental activities, long-term compensated absences are generally liquidated by the general fund.

The annual requirements to amortize all debt outstanding (excluding long-term compensated absences) as of June 30, 2007 are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 47,000	\$ 37,509	\$ 214,188	\$ 85,774	\$ 70,000	\$ 60,650
2009	48,000	36,261	215,749	78,289	75,000	56,925
2010	49,000	34,293	232,394	70,342	75,000	52,613
2011	51,000	32,029	154,127	61,674	80,000	48,300
2012	52,000	29,978	160,953	55,814	90,000	43,700
2013-2017	154,000	130,219	757,567	190,125	670,000	134,264
2018-2022	192,000	93,306	660,000	59,392	-	-
2023-2027	127,000	56,148	163,539	3,226	-	-
2028-2032	164,000	23,634	-	-	-	-
Total	<u>\$884,000</u>	<u>\$ 473,377</u>	<u>\$2,558,517</u>	<u>\$604,636</u>	<u>\$1,060,000</u>	<u>\$ 396,452</u>

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

9. PENSION PLAN

Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits covering certain bargaining units. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate, which for the current year ranged from 17.54 to 31.13 percent. Employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board.

For the year ended June 30, 2007, the City's annual pension cost of \$193,704 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases of four and one-half (4.5) percent per year compounded annually based on inflation, plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 30 years.

Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$193,417	100%	\$ -
2006	198,134	100%	-
2007	193,704	100%	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2004	\$ 2,493,140	\$ 3,714,628	\$ 1,221,488	67%	\$ 906,426	135%
12/31/2005	2,685,041	3,846,839	1,161,798	70%	932,025	125%
12/31/2006	2,929,086	4,098,465	1,169,379	71%	932,088	125%

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

10. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The City carries commercial health, medical, and optical insurance. Statement No. 10 of the Governmental Accounting Standards Board requires that a liability for claims be reported if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. CONCENTRATIONS

The City has a significant economic dependence on a local corporation that is a major employer, taxpayer, and user of water and sewer services. The following is the percentage of taxes and utilities paid by the corporation:

	Amount	Percent of Total
Property taxes	\$ 314,288	33%
Water and sewer billing	1,039,874	63%
Water and sewer accounts receivable	61,380	32%

12. CONTINGENT LIABILITY

Wastewater Treatment Plant

The City owns a parcel of land that is used for its wastewater treatment plant. The parcel was previously owned by Koppers Company which operated a creosote plant treating poles and railroad ties. The Department of Natural Resources has notified Koppers and the City that a previous clean-up of the site is not sufficient and a new hydro geological study must be completed. The Department of Natural Resources claims that the City may be a possible responsible party because it presently owns the property and must be involved in the study and remedial action. Creosote leaking into a river is being purged and treated in the City's wastewater treatment plant. Total costs of the clean-up could be substantial. The City of Reed City and Beazer East, Inc. (the successor to Koppers) have entered into an agreement regarding certain cost sharing which requires, among other things, that the City is to treat water from the wells. There has not been a determination of responsible parties, the cost of the project, or whether the costs will be covered by insurance. Based on these factors, no provision for the contingency is included in the financial statements.

The City has also been notified by the Department of Environmental Quality of certain violations at its wastewater treatment plant. The potential cost to the City as a result of the violations is unknown.

Landfill

From September 17, 1968 until March 8, 1985, the City operated a landfill, which is now privately owned and operated. The City, Richmond Sanitary Landfill, Inc. and the Department of Natural Resources entered into a Consent Agreement which outlines certain obligations of the parties regarding the capping of the landfill. The majority of the City's requirements under the Consent Agreement have been completed. It is impossible to determine the financial obligation that the City of Reed City may ultimately have regarding the landfill until further studies and tests are done. If there are contamination problems at the landfill and the City is held liable, the cost to the City could be significant.

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Downtown Development Authority

The Downtown Development Authority has entered into an agreement to pay \$100,000 per year for ten years beginning in the year ended June 30, 2005, for their portion of a force main project. The payment is contingent on a business in the City maintaining their current production capacity.

13. COMMITMENTS

The City has approximately \$300,000 committed under contracts at June 30, 2007 related to water tower construction and improvements to water mains.

The City also has approximately \$640,000 committed under contract for the construction of a depot.

* * * * *

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

NONMAJOR GOVERNMENTAL FUNDS

CITY OF REED CITY

Combining Balance Sheets Nonmajor Governmental Funds

June 30, 2007

	Special Revenue					
	Major Streets	Local Streets	Law Enforcement Training	Library	Maplewood Special Assessment	Emergency Contingency
Assets						
Cash and cash equivalents	\$ 67,994	\$ 9,664	\$ 3,153	\$ 147,701	\$ -	\$ 258,156
Accounts receivable, net of allowance	-	-	-	249	-	-
Special assessments receivable	-	-	-	-	71,553	-
Due from other governmental units	25,347	7,645	-	-	-	-
Prepaid items	393	290	-	219	-	-
Total assets	<u>\$ 93,734</u>	<u>\$ 17,599</u>	<u>\$ 3,153</u>	<u>\$ 148,169</u>	<u>\$ 71,553</u>	<u>\$ 258,156</u>
Liabilities and fund balances						
Liabilities						
Accounts payable	\$ 1,462	\$ 1,293	\$ -	\$ 3,562	\$ -	\$ -
Accrued liabilities	557	466	-	1,100	-	-
Due to other funds	3,291	2,396	-	-	-	-
Deferred revenue	-	-	-	-	53,998	-
Total liabilities	<u>5,310</u>	<u>4,155</u>	<u>-</u>	<u>4,662</u>	<u>53,998</u>	<u>-</u>
Fund balances						
Reserved for :						
Prepaid items	393	290	-	219	-	-
Perpetual care	-	-	-	-	-	-
Unreserved:						
Designated for subsequent year expenditures	5,738	5,181	-	-	-	-
Undesignated	82,293	7,973	3,153	143,288	17,555	258,156
Total fund balances	<u>88,424</u>	<u>13,444</u>	<u>3,153</u>	<u>143,507</u>	<u>17,555</u>	<u>258,156</u>
Total liabilities and fund balances	<u>\$ 93,734</u>	<u>\$ 17,599</u>	<u>\$ 3,153</u>	<u>\$ 148,169</u>	<u>\$ 71,553</u>	<u>\$ 258,156</u>

		Debt Service				Capital Projects			Permanent	
Park	Police	Special		Fire	Fire	Equipment	Police	Parks	Cemetery	
Commission	Reserve	Assessment		Truck	Station	and	Building	Improvement	Perpetual	
	Officer	Bond				Replacement			Care	Total
\$ 14,185	\$ 226	\$ 59,536	\$ 4,130	\$ 33,829		\$ 7,726	\$ -	\$ 13,113	\$ 45,919	\$ 665,332
87	-	-	-	168		-	-	-	-	504
-	-	-	-	-		-	-	-	-	71,553
-	-	-	-	-		-	-	-	-	32,992
-	-	-	-	-		-	-	-	-	902
\$ 14,272	\$ 226	\$ 59,536	\$ 4,130	\$ 33,997		\$ 7,726	\$ -	\$ 13,113	\$ 45,919	\$ 771,283
\$ -	\$ -	\$ -	\$ -	\$ -		\$ 179	\$ -	\$ -	\$ -	\$ 6,496
-	-	-	-	-		-	-	-	-	2,123
-	-	-	-	-		-	-	-	-	5,687
-	-	-	-	-		-	-	-	-	53,998
-	-	-	-	-		179	-	-	-	68,304
-	-	-	-	-		-	-	-	-	902
-	-	-	-	-		-	-	-	33,750	33,750
600	-	-	-	-		-	-	-	-	11,519
13,672	226	59,536	4,130	33,997		7,547	-	13,113	12,169	656,808
14,272	226	59,536	4,130	33,997		7,547	-	13,113	45,919	702,979
\$ 14,272	\$ 226	\$ 59,536	\$ 4,130	\$ 33,997		\$ 7,726	\$ -	\$ 13,113	\$ 45,919	\$ 771,283

CITY OF REED CITY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds

For the Year Ended June 30, 2007

	Special Revenue					
	Major Streets	Local Streets	Law Enforcement Training	Library	Maplewood Special Assessment	Emergency Contingency
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ 33,605	\$ -	\$ -
Special assessments	-	-	-	-	17,554	-
Intergovernmental:						
State	176,269	61,457	-	-	-	-
Local	-	-	-	-	-	-
Interest and other	3,195	743	1,045	91,563	5,225	11,953
Total revenues	179,464	62,200	1,045	125,168	22,779	11,953
Expenditures						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Highways and streets	140,228	92,226	-	-	-	-
Culture and recreation	-	-	-	95,262	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay	12,278	-	-	18,638	-	-
Total expenditures	152,506	92,226	-	113,900	-	-
Revenues over (under) expenditures	26,958	(30,026)	1,045	11,268	22,779	11,953
Other financing sources (uses)						
Transfers in	8,305	28,088	-	-	-	-
Transfers out	(29,088)	(8,805)	(500)	-	(22,650)	(11,952)
Total other financing sources (uses)	(20,783)	19,283	(500)	-	(22,650)	(11,952)
Net change in fund balances	6,175	(10,743)	545	11,268	129	1
Fund balances, beginning of year	82,249	24,187	2,608	132,239	17,426	258,155
Fund balances, end of year	\$ 88,424	\$ 13,444	\$ 3,153	\$ 143,507	\$ 17,555	\$ 258,156

Park Commission	Police Reserve Officer	Debt Service			Capital Projects			Permanent Cemetery Perpetual Care	Total
		Special Assessment Bond	Fire Truck	Fire Station	Equipment and Replacement	Police Building	Parks Improvement		
\$ -	\$ -	\$ -	\$ -	\$ 34,508	\$ -	\$ -	\$ -	\$ -	\$ 68,113
-	-	-	-	-	-	-	-	-	17,554
-	-	-	-	-	-	-	-	-	237,726
7,000	-	-	-	-	-	-	-	-	7,000
11,304	90	1,996	18	1,318	218	-	544	1,961	131,173
18,304	90	1,996	18	35,826	218	-	544	1,961	461,566
-	-	-	-	-	-	-	-	388	388
-	249	-	-	-	-	-	-	-	249
-	-	-	-	-	-	-	-	-	232,454
17,979	-	-	-	-	-	-	-	-	113,241
-	-	20,000	-	10,000	-	-	-	-	30,000
-	-	5,565	-	24,929	-	-	-	-	30,494
-	-	-	-	-	1,474	-	4,284	-	36,674
17,979	249	25,565	-	34,929	1,474	-	4,284	388	443,500
325	(159)	(23,569)	18	897	(1,256)	-	(3,740)	1,573	18,066
-	-	22,650	4,112	-	4,500	-	-	-	67,655
-	-	-	-	-	-	(165)	-	-	(73,160)
-	-	22,650	4,112	-	4,500	(165)	-	-	(5,505)
325	(159)	(919)	4,130	897	3,244	(165)	(3,740)	1,573	12,561
13,947	385	60,455	-	33,100	4,303	165	16,853	44,346	690,418
\$ 14,272	\$ 226	\$ 59,536	\$ 4,130	\$ 33,997	\$ 7,547	\$ -	\$ 13,113	\$ 45,919	\$ 702,979

CITY OF REED CITY

**Schedule of Revenues, Expenditures
and Changes in Fund Balance
Budget and Actual
Major Streets Fund**

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Revenues				
Intergovernmental revenues:				
State	\$ 174,981	\$ 179,200	\$ 176,269	\$ (2,931)
Interest and other	3,000	3,000	3,195	195
Total revenues	177,981	182,200	179,464	(2,736)
Expenditures				
Highways and streets	132,477	147,112	140,228	(6,884)
Capital outlay	25,416	15,000	12,278	(2,722)
Total expenditures	157,893	162,112	152,506	(9,606)
Revenues over (under) expenditures	20,088	20,088	26,958	6,870
Other financing sources (uses)				
Transfers in	9,000	9,000	8,305	(695)
Transfers (out)	(29,088)	(29,088)	(29,088)	-
Total other financing sources (uses)	(20,088)	(20,088)	(20,783)	(695)
Net change in fund balance	-	-	6,175	6,175
Fund balance, beginning of year	82,249	82,249	82,249	-
Fund balance, end of year	\$ 82,249	\$ 82,249	\$ 88,424	\$ 6,175

CITY OF REED CITY

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Local Streets Fund

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Revenues				
Intergovernmental revenues:				
State	\$ 64,000	\$ 64,000	\$ 61,457	\$ (2,543)
Interest and other	1,100	1,100	743	(357)
Total revenues	65,100	65,100	62,200	(2,900)
Expenditures				
Highways and streets	101,713	101,713	92,226	(9,487)
Revenues over (under) expenditures	(36,613)	(36,613)	(30,026)	6,587
Other financing sources (uses)				
Transfers in	28,088	28,088	28,088	-
Transfers (out)	(9,500)	(9,500)	(8,805)	695
Total other financing sources (uses)	18,588	18,588	19,283	695
Net change in fund balance	(18,025)	(18,025)	(10,743)	7,282
Fund balance, beginning of year	24,187	24,187	24,187	-
Fund balance, end of year	<u>\$ 6,162</u>	<u>\$ 6,162</u>	<u>\$ 13,444</u>	<u>\$ 7,282</u>

CITY OF REED CITY

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Law Enforcement Training

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Revenues				
Interest and other	\$ 1,030	\$ 1,030	\$ 1,045	\$ 15
Expenditures				
Public safety	-	-	-	-
Net change in fund balances	1,030	1,030	1,045	15
Other financing sources (uses)				
Transfers (out)	(2,000)	(2,000)	(500)	1,500
Net change in fund balance	(970)	(970)	545	1,515
Fund balance, beginning of year	2,608	2,608	2,608	-
Fund balance, end of year	<u>\$ 1,638</u>	<u>\$ 1,638</u>	<u>\$ 3,153</u>	<u>\$ 1,515</u>

CITY OF REED CITY

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Library Fund

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Revenues				
Property taxes	\$ 31,575	\$ 31,575	\$ 33,605	\$ 2,030
Interest and other	104,820	104,820	91,563	(13,257)
Total revenues	136,395	136,395	125,168	(11,227)
Expenditures				
Culture and recreation	116,395	117,145	95,262	(21,883)
Capital outlay	20,000	19,250	18,638	(612)
Total expenditures	136,395	136,395	113,900	(22,495)
Net change in fund balance	-	-	11,268	11,268
Fund balance, beginning of year	132,239	132,239	132,239	-
Fund balance, end of year	\$ 132,239	\$ 132,239	\$ 143,507	\$ 11,268

CITY OF REED CITY

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Maplewood Special Assessment

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Revenues				
Special assessments	\$ 17,402	\$ 17,402	\$ 17,554	\$ 152
Interest and other	5,590	5,590	5,225	(365)
Total revenues	22,992	22,992	22,779	(213)
Expenditures				
Capital outlay	-	-	-	-
Net change in fund balances	22,992	22,992	22,779	(213)
Other financing sources (uses)				
Transfers (out)	(22,992)	(22,992)	(22,650)	342
Net change in fund balance	-	-	129	129
Fund balance, beginning of year	17,426	17,426	17,426	-
Fund balance, end of year	\$ 17,426	\$ 17,426	\$ 17,555	\$ 129

CITY OF REED CITY

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Emergency Contingency

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Revenues				
Interest and other	\$ 8,000	\$ 12,000	\$ 11,953	\$ (47)
Expenditures				
General government	-	-	-	-
Revenues over (under) expenditures	8,000	12,000	11,953	(47)
Other financing sources (uses)				
Transfers (out)	(8,000)	(12,000)	(11,952)	48
Net change in fund balance	-	-	1	1
Fund balance, beginning of year	258,155	258,155	258,155	-
Fund balance, end of year	<u>\$ 258,155</u>	<u>\$ 258,155</u>	<u>\$ 258,156</u>	<u>\$ 1</u>

CITY OF REED CITY

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Park Commission

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Revenues				
Intergovernmental revenues:				
Local	\$ 7,000	\$ 7,000	\$ 7,000	\$ -
Interest and other	5,750	13,090	11,304	(1,786)
Total revenues	12,750	20,090	18,304	(1,786)
Expenditures				
Culture and recreation	13,250	20,590	17,979	(2,611)
Net change in fund balance	(500)	(500)	325	825
Fund balance, beginning of year	13,947	13,947	13,947	-
Fund balance, end of year	\$ 13,447	\$ 13,447	\$ 14,272	\$ 825

CITY OF REED CITY

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Police Reserve Officer Fund

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Revenues				
Interest and other	\$ 1,000	\$ 1,000	\$ 90	\$ (910)
Expenditures				
Public safety	1,000	1,000	249	(751)
Net change in fund balance	-	-	(159)	(159)
Fund balance, beginning of year	385	385	385	-
Fund balance, end of year	\$ 385	\$ 385	\$ 226	\$ (159)

INTERNAL SERVICE FUNDS

CITY OF REED CITY

Combining Statement of Net Assets Internal Service Funds

June 30, 2007

	Compensated Absences Fund	Motor Pool Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ -	\$ 108,813	\$ 108,813
Due from other funds	44,087	-	44,087
Prepaid items	-	410	410
Total current assets	44,087	109,223	153,310
Noncurrent assets:			
Capital assets:			
Machinery and equipment	-	746,206	746,206
Less: accumulated depreciation	-	(508,911)	(508,911)
Total noncurrent assets	-	237,295	237,295
Total assets	44,087	346,518	390,605
Liabilities			
Current liabilities:			
Accounts payable	-	5,951	5,951
Accrued liabilities	44,087	7,045	51,132
Total liabilities	44,087	12,996	57,083
Net assets			
Invested in capital assets, net of related debt	-	237,295	237,295
Unrestricted	-	96,227	96,227
Total net assets	\$ -	\$ 333,522	\$ 333,522

CITY OF REED CITY

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets Internal Service Funds

For the Year Ended June 30, 2007

	Compensated Absences Fund	Motor Pool Fund	Total
Operating revenues			
Charges for services	\$ 2,075	\$ 186,547	\$ 188,622
Operating expenses			
Personnel services	2,075	49,308	51,383
Contractual services	-	20,697	20,697
Materials and supplies	-	31,552	31,552
Utilities	-	11,052	11,052
Repairs and maintenance	-	24,619	24,619
Depreciation and amortization	-	46,146	46,146
Total operating expenses	2,075	183,374	185,449
Operating income	-	3,173	3,173
Non operating revenues (expenses)			
Gain on sale of capital assets	-	71	71
Interest income	-	2,836	2,836
Interest expense	-	-	-
Total non operating revenues (expenses)	-	2,907	2,907
Net income before transfers	-	6,080	6,080
Transfers out	-	(1,000)	(1,000)
Change in net assets	-	5,080	5,080
Net assets, beginning of year	-	328,442	328,442
Net assets, end of year	\$ -	\$ 333,522	\$ 333,522

CITY OF REED CITY

Combining Statement of Cash Flows Internal Service Funds

For the Year Ended June 30, 2007

	Compensated Absences Fund	Motor Pool Fund	Total
Cash flows from operating activities			
Receipts from interfund services provided	\$ 2,075	\$ 186,547	\$ 188,622
Payments to suppliers	-	(86,937)	(86,937)
Payments to employees	-	(49,741)	(49,741)
Net cash provided by operating activities	2,075	49,869	51,944
Cash flows from non-capital financing activities			
Amounts lent to other funds	(2,075)	-	(2,075)
Transfers (out)	-	(1,000)	(1,000)
Net cash provided by (used in) non-capital financing activities	(2,075)	(1,000)	(3,075)
Cash flows from capital and related financing activities			
Acquisition of capital assets	-	(24,659)	(24,659)
Proceeds from sale of capital assets	-	71	71
Net cash provided by (used in) capital and related financing activities	-	(24,588)	(24,588)
Cash flows from investing activities			
Interest earned on investments	-	2,836	2,836
Net increase (decrease) in cash and cash equivalents	-	27,117	27,117
Cash and cash equivalents, beginning of year	-	81,696	81,696
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 108,813</u>	<u>\$ 108,813</u>
Cash flows from operating activities			
Operating income	\$ -	\$ 3,173	\$ 3,173
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	-	46,146	46,146
Changes in operating assets and liabilities which provided (used) cash:			
Accounts payable	-	983	983
Accrued liabilities	2,075	(433)	1,642
Net cash provided by operating activities	<u>\$ 2,075</u>	<u>\$ 49,869</u>	<u>\$ 51,944</u>

FIDUCIARY FUNDS

CITY OF REED CITY

**Agency Funds
Combining Balance Sheet**

June 30, 2007

	Tax Collection	Payroll	Rails to Trails	Osceola Foundation	Totals
Assets					
Cash and cash equivalents	\$ 862	\$ 4,333	\$ 5,428	\$ 9,391	\$ 20,014
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 797	\$ 797
Due to other governmental units	862	4,333	-	-	5,195
Deposits held for others	-	-	5,428	8,594	14,022
Total liabilities	\$ 862	\$ 4,333	\$ 5,428	\$ 9,391	\$ 20,014

COMPONENT UNIT

CITY OF REED CITY

Balance Sheet/Statement of Net Assets Downtown Development Authority

June 30, 2007

	General Operating Fund	Debt Service	Capital Projects	Adjustments	Statement of Net Assets
Assets					
Cash and cash equivalents	\$ 439,804	\$ 137,762	\$ 32,586	\$ -	\$ 610,152
Accounts receivable	30,246	-	-	-	30,246
Due from other funds	-	-	10,000	(10,000)	-
Advance to other component unit	-	-	5,000	-	5,000
Total assets	<u>\$ 470,050</u>	<u>\$ 137,762</u>	<u>\$ 47,586</u>	<u>(10,000)</u>	<u>645,398</u>
Liabilities and fund balance/net assets					
Liabilities					
Accounts payable	\$ -	\$ 300	\$ 42,731	\$ -	\$ 43,031
Due to other funds	10,000	-	-	(10,000)	-
Deferred revenue	29,831	-	-	(29,831)	-
Accrued interest	-	-	-	4,852	4,852
Bond payable	-	-	-	1,060,000	1,060,000
Total liabilities	<u>39,831</u>	<u>300</u>	<u>42,731</u>	<u>1,025,021</u>	<u>1,107,883</u>
Fund balance					
Undesignated	<u>430,219</u>	<u>137,462</u>	<u>4,855</u>	<u>(572,536)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 470,050</u>	<u>\$ 137,762</u>	<u>\$ 47,586</u>		
Net assets					
Unrestricted (deficit)				<u>\$ (452,485)</u>	<u>\$ (462,485)</u>

CITY OF REED CITY

Statement of Revenues, Expenditures and Changes in Fund Balances/Net Assets Downtown Development Authority

For the Year Ended June 30, 2007

	General Operating Fund	Debt Service	Capital Projects	Adjustments	Statement of Net Assets
Revenues					
Taxes	\$ 574,832	\$ -	\$ -	\$ -	\$ 574,832
Interest and other	25,729	8,992	-	(4,624)	30,097
Total revenues	600,561	8,992	-	(4,624)	604,929
Expenditures/expenses					
General government	-	-	393,097	-	393,097
Debt service:					
Principal	-	40,000	-	(40,000)	-
Interest and fiscal charges	-	63,050	-	(168)	62,882
Total expenditures/expenses	-	103,050	393,097	(40,168)	455,979
Revenues over (under) expenditures	600,561	(94,058)	(393,097)	35,544	148,950
Other financing sources (uses)					
Transfers in	-	96,669	236,899	(333,568)	-
Transfers (out)	(333,568)	-	-	333,568	-
Total other financing sources (uses)	(333,568)	96,669	236,899	-	-
Net change in fund balances	266,993	2,611	(156,198)	(113,406)	
Change in net assets				148,950	148,950
Fund balances/net assets (deficit), beginning of year	163,226	134,851	161,053	(1,070,565)	(611,435)
Fund balances/net assets (deficit), end of year	<u>\$ 430,219</u>	<u>\$ 137,462</u>	<u>\$ 4,855</u>	<u>\$ (1,035,021)</u>	<u>\$ (462,485)</u>



REED CITY, MICHIGAN

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



REHMANN ROBSON

Certified Public Accountants

**CITY OF REED CITY
SINGLE AUDIT**

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

October 11, 2007

Honorable Mayor and Members of
the City Council
City of Reed City, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of City of Reed City, Michigan, as of and for the year ended June 30, 2007, and have issued our report thereon dated October 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Reed City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Reed City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Reed City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed in the schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider finding 2007-1 as described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our considering of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Reed City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

October 11, 2007

Honorable Mayor and Members of
the City Council
City of Reed City, Michigan

Compliance

We have audited the compliance of City of Reed City, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. City of Reed City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Reed City's management. Our responsibility is to express an opinion on City of Reed City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Reed City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Reed City's compliance with those requirements.

In our opinion, City of Reed City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of City of Reed City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Reed City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Reed City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of City of Reed City as of and for the year ended June 30, 2007 and have issued our report thereon dated October 11, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City of Reed City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

CITY OF REED CITY
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Federal Agency/Pass-through Grantor/Program Title	CFDA #	Federal Expenditures
U.S. Department of Agriculture		
Direct funding:		
Community Facilities Grant Program	10.766	\$ 30,000
Community Facilities Loan Program	10.766	<u>230,000</u>
Total U.S. Department of Agriculture		<u>260,000</u>
U.S. Environmental Protection Agency		
Direct funding:		
Sites Assessment Project	66.818	9,584
Petroleum Assessment	66.818	<u>13,583</u>
		23,167
Passed through Michigan Department of Environmental Quality:		
Drinking Water Revolving Fund Loan	66.468	<u>512,160</u>
Total U.S. Environmental Protection Agency		<u>535,327</u>
Total Expenditures of Federal Awards		<u>\$ 795,327</u>

**CITY OF REED CITY
SINGLE AUDIT**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Accounting

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

Reconciliation of Basic Financial Statements

Revenues from federal sources per the June 30, 2007 basic financial statements agree with federal expenditures from the June 30, 2007 Schedule of Expenditures of Federal Awards.

CITY OF REED CITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal controls over financial reporting:

Material weakness(es) identified?

_____ yes x no

Significant deficiency(ies) identified not
considered to be material weaknesses?

 x yes _____ none reported

Noncompliance material to financial
statements noted?

_____ yes x no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes x no

Significant deficiency(ies) identified not
considered to be material weaknesses?

_____ yes x none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section 510(a)?

_____ yes x no

Identification of Major Programs

CFDA Number(s)

Name of Federal Program or Cluster

66.468

Drinking Water Revolving Fund

Dollar threshold used to distinguish
between Type A and Type B programs:

 \$ 300,000

Auditee qualified as low-risk auditee?

_____ yes x no

CITY OF REED CITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2007-1 – Segregation of Incompatible Duties – Cash and Investments

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the District's assets.

Condition: During our audit we noted several incompatible duties that were not properly segregated or independently reviewed. We noted –

- The physical receipting of cash/checks and preparing or making bank deposits is not segregated.
- Bank reconciliations are not always reviewed and documented by an individual other than the preparer.
- Investment statements are reconciled to the general ledger by the same individual who is responsible for managing the investments.

Cause: This condition was primarily caused by the lack of staff and timing constraints.

Effect: As a result of this condition, the District's cash and investments could be potentially misappropriated or misstated.

Recommendation: We recommend that the City have a responsible person, who is independent of the cash and bank reconciliation process review, initial and date all reconciliations.

View of Responsible Officials: A responsible individual will be assigned the duty of reviewing and approving all the reconciliations for all cash and investment accounts.

SECTION III – FEDERAL AWARDS FINDINGS

None

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

None



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

October 11, 2007

To the City Council of the
City of Reed City
Reed City, Michigan

We have audited the financial statements of City of Reed City for the year ended June 30, 2007, and have issued our report thereon dated October 11, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated August 2, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered City of Reed City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether City of Reed City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about City of Reed City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on City of Reed City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on City of Reed City's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Reed City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by City of Reed City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on City of Reed City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by City of Reed City, either individually or in the aggregate, indicate matters that could have a significant effect on City of Reed City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as City of Reed City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is intended for the use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

City of Reed City
Comments and Recommendations
For the Year Ended June 30, 2007

In planning and performing our audit of the financial statements of City of Reed City as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the City's Single Audit report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Other Matters

General Journal Entries

During our audit we noted that there is not a process in place for review and approval of all general journal entries. We recommend that all general journal entries be reviewed and approved by an appropriate employee of the City to ensure proper recording and reduce the risk of fraud.

Water/Sewer Credits

During our audit we noted that there is no supporting documentation required for water/sewer credits and there is no formal approval of the credits. We recommend that all credits have some kind of supporting documentation and approval from an appropriate individual.

Inventory of Capital Assets

During our review of internal control procedures, we noted that an inventory of capital assets is not taken on a periodic basis. We recommend that an inventory of all capital assets owned by the City be performed periodically, with an annual assessment considered best practice. We further recommend that the inventory listing be compared to capital asset records and any discrepancies investigated and resolved.

City of Reed City
Comments and Recommendations
For the Year Ended June 30, 2007

Equipment and Real Property Management – Capital Assets Acquired with Federal Funds

Per OMB Circular A-133, title to equipment acquired by a non-federal entity with federal awards vests with the non-federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of \$5000 or more per unit. The City should follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. Equipment records should be maintained, a physical inventory of equipment should be taken at least once every two years and reconciled to the equipment records, an appropriate control system should be used to safeguard equipment, and equipment should be adequately maintained. We noted the City maintains accurate records for its capital assets, yet no indication is given whether an asset was acquired through federal funds. We did note through inquiry of management that they are aware and have practiced the policy when disposing a piece of federally funded equipment in the past. We would recommend that those assets purchased with federal funds be identified in the City's capital asset records, so, in the case of turnover, other individuals would be aware of which assets are subject to federal "equipment and real property management" compliance requirements.

* * * * *